

VZCZCXRO6886  
RR RUEHAG RUEHDBU RUEHROV  
DE RUEHKB #1238/01 2841316  
ZNY CCCCC ZZH  
R 111316Z OCT 07  
FM AMEMBASSY BAKU  
TO RUEHC/SECSTATE WASHDC 4037  
INFO RUCNCIS/CIS COLLECTIVE  
RUCNMEM/EU MEMBER STATES  
RHMFISS/CDR USEUCOM VAIHINGEN GE  
RUEAIIA/CIA WASHINGTON DC  
RUEKDIA/DIA WASHDC  
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 BAKU 001238

SIPDIS

SIPDIS

E.O. 12958: DECL: 10/11/2017  
TAGS: [PGOV](#) [PREL](#) [ENRG](#) [AJ](#) [TU](#) [GA](#)  
SUBJECT: AZERBAIJAN WILL HELP GEORGIA WITH WINTER GAS BUT  
IT WON'T BE ENOUGH

REF: A) BAKU 1224 B0 BAKU 1227

Classified By: Pol-Econ Chief Joan Polaschik, Reasons 1.4 (b,d)

¶1. (C) SUMMARY: Azerbaijan finds itself in a better situation to deal with regional winter gas shortages than in previous years due to both Shah Deniz gas and increased domestic (i.e. SOCAR) gas production, combined with decreased domestic demand resulting from price increases. Although President Aliyev has expressed his willingness to help Georgia by selling gas as in the past, he has linked Azerbaijan's ability to do so with the provision of associated gas from the AIOC Consortium operating the ACG oil mega-field to Azerbaijan. The amount of gas Azerbaijan sells Georgia will be a function of expected domestic supply and demand combined with a political decision on how much fuel oil the GOAJ is willing to burn instead of gas in its power plants. Gas marketing experts at both SOCAR and BP expect Azerbaijan to sell from 1.5 to 3 million cubic meters a day to Georgia this winter, with pipeline infrastructure ceiling precluding transmission of more than 3 mcm/d. As such, these experts recommended that the Georgian government focus on negotiating a gas agreement with Russia, in addition to one with Azerbaijan, as Azerbaijan by itself can meet less than half the supply deficit Georgia is expected to face. END SUMMARY.

ACG ASSOCIATED GAS AND GEORGIA  
-----

¶2. (C) Due to an August 2007 breakdown in negotiations between the State Oil Company of Azerbaijan (SOCAR) and the Azerbaijan International Oil Consortium (AIOC - the consortium responsible for developing Azerbaijan's major oil field, the ACG field), as of mid-September the latter has decreased the amount of associated gas it was providing SOCAR from approximately 8.5 million cubic meters per day (mcm/d) to 4 mcm/d (ref A). Although Azerbaijan has expressed its willingness to help Georgia by selling gas as in the past, it has linked Azerbaijan's ability to do so with the provision of associated gas from the AIOC Consortium operating the ACG oil mega-field to Azerbaijan. In an October 8 conversation with the Ambassador, President Aliyev said that while Azerbaijan is willing to help Georgia this winter by selling it gas as in the past, "if BP (operator of the AIOC Consortium) reduces the gas it is giving Azerbaijan, Georgia will get less" (Reftel B). However, given the Consortium's need to re-inject gas into the ACG field, plus a diminution in their desire to show maximum goodwill due to SOCAR's unilateral cessation of negotiations, it is not at all clear that the Consortium would resume providing this "surplus" ACG associated gas to SOCAR in time to help Georgia for the winter.

## GOAJ GAS SUPPLY/DEMAND

13. (C) According to BP and SOCAR sources, anticipated Azerbaijan winter gas supply and demand is as follows:

16.5 mcm/d - SOCAR production  
5 mcm/d - Shah Deniz gas being sold to SOCAR  
4 mcm/d - ACG Associated Gas given to SOCAR  
10 mcm/d - gas available from storage

-----  
35.5 mcm/d = total GOAJ gas available

According to both BP and SOCAR, upcoming Azerbaijan winter gas demand is unknown. Although the previous winter demand was 30 mcm/d, since then the price of gas has increased, with domestic consumption fallen by approximately 25 percent.

GOG NEEDS 5 MCM/D

14. (C) Knowledgeable BP Azerbaijan gas executives have given EnergyOff the following approximate numbers about Azerbaijan and Georgian gas supply and demand, subsequently confirmed by SOCAR, which indicate that Georgia's winter gas demands will exceed its current guaranteed supply by approximately 5 mcm/d:

7 mcm/d - Georgian minimal winter gas demand  
1 mcm/d - Shah Deniz gas given to Georgia  
1 mcm/d - Russian transit gas given to Georgia (for gas being sent to Armenia)

BAKU 00001238 002 OF 002

MAX GOAJ CAN GIVE IS 3 MCM/D

15. (C) Of the anticipated 5 mcm/d gas deficit Georgia will have, SOCAR and BP contacts have told EnergyOff that due to limited current Azerigaz pipeline capacity there is an infrastructure ceiling of 3 mcm/d for Azerbaijani gas sales to Georgia (excluding Shah Deniz gas delivered through the SCP pipeline). Thus, even if Azerbaijan sold Azerbaijan the maximum amount it could send north, Georgia would still have a supply deficit of at least 2 mcm/d. According to Azerbaijani press accounts, last winter Azerbaijan sold Georgia 30 mcm in January, and 40 mcm in both February and March, for a three-month average of approximately 1.4 mcm/d. A BP gas marketing expert told EnergyOff he thought it unlikely the GOAJ would sell Georgia three mcm/d, with one to two mcm/d being more possible.

STATUS OF GOAJ-GOG TALKS

16. (C) According to an October 10 local press piece, the current GOAJ gas contract with Georgia, which provides approximately 1.3 to 1.5 mcm/d, will end in October. SOCAR confirmed press reports that negotiations between Azerbaijan and Georgia are ongoing concerning a follow-on contract. (On the GOAJ side SOCAR President Rovnaq Abdullayev and PM Rasizade are involved.) SOCAR Vice-President Elshad Nasirov told EnergyOff that Azerbaijan would seek to sell from one to three mcm/d to Georgia. (COMMENT: As in the previous year, Azerbaijan has the ability to make up for gas deficits by burning fuel oil in its power plants, although this results in a loss of hard currency earnings.) As a result of Azerbaijan's inability to meet Georgian gas demand this winter, a BP gas marketing expert believes that in the "best case Georgia will need to buy only 3 mcm/d from Russia, worst case around 5 mcm/d."

TURKEY?

¶7. (C) Both BP and SOCAR experts discounted the possibility of Turkey redirecting any of its Shah Deniz gas to Georgia, given its demand and the low price of USD 120 per thousand cubic meters at which it was buying the gas. As a BP gas marketing expert put it, "Turkey will not redirect any Shah Deniz volumes because they need it and it is cheap." Additionally, now that the issue of a trigger date for Shah Deniz Stage One has been largely set, Turkey wants to maximize the amount of cheap Shah Deniz gas it gets before the year expires and the Shah Deniz consortium can raise the price to market levels.

¶8. (C) COMMENT: As the AIOC Consortium anticipated last year when it began to provide 'surplus' associated ACG gas to SOCAR as a sign of goodwill (to the detriment of re-injection), SOCAR and Azerbaijan have become used to this free gas, much of which was being sold to Georgia. Now, with the decrease in this amount of associated ACG gas to SOCAR, President Aliyev and SOCAR are blaming the AIOC Consortium for any problems in providing gas to Georgia. It is unlikely that the AIOC Consortium will resume giving this surplus gas to SOCAR, given the increasingly exigent need to re-inject it into the ACG field. Thus, how much gas Azerbaijan sells Georgia will depend on expected Azerbaijani domestic demand combined with a political decision on how much fuel oil the GOAJ is willing to burn. Regardless, gas marketing experts at both BP and SOCAR suggest it might behoove the Georgian government to focus on negotiating a gas agreement with Russia, in addition to the one with Azerbaijan. END COMMENT.  
DERSE